Approved March 10, 1983
Date

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Representative Jim Braden at
Chairperson

9:00 a.m. on March 1, 1983 in room 519S of the Capitol.

All members were present except: Representatives Ott and Crowell who were excused.

Committee staff present:

Wayne Morris, Research Department
Don Hayward, Revisor of Statutes' Office
Nancy Wolff, Secretary to the Committee

Conferees appearing before the committee:

Jamie Schwartz, Secretary, Department of Economic Development
Chris MacKenzie, League of Kansas Municipalities
Dennis Shockley, Legislative Liason, City of Kansas City, KS.
Ron Gaches, Kansas Association of Commerce and Industry
Lonnie Edenfield, Executive Director, Winfield Area Chamber of Commerce
Jerry Mallot, Kansas Industrial Developers Association
Alan Alderson, Department of Revenue

The meeting was called to order by the Chairman.

Jamie Schwartz, Secretary of the Department of Economic Development, appeared as a proponent of House Bill 2498 which would add additional constraints to the current Enterprise Zone legislation. He stated that one purpose of House Bill 2498 was to make the Enterprise Zone legislation a little tighter and more of a partnership between the cities and the state of Kansas. Under questioning from some of the members, Mr. Schwartz stated that a city should be limited to only one zone but rather that they could have zones in different sections of a city as long as they would not, in the aggregate, exceed 25% of the population and 25% of the land area of that city.

Chris MacKenzie, League of Kansas Municipalities, appeared as a proponent of House Bill 2498. He stated that the Legislative Committee of the League had met to review the bill and although many of the member cities have already had an opportunity to apply, it is the feeling of the League that the legislation needs to be re-examined.

Dennis Shockley, Federal and State Affairs Division of the City of Kansas City, Kansas, appeared in opposition to House Bill 2498 as it currently is drafted. He had a number of suggested amendments to this bill. (Attachment I)

Ron Gaches, Kansas Association of Commerce and Industry, appeared in opposition to House Bill 2498 and presented a number of suggested amendments to the bill. (Attachment II)

Lonnie Edenfield, Executive Director of the Winfield Area Chamber of Commerce appeared as an opponent to House Bill 2498. (Attachment III)

Jerry Mallott, Wichita Area Chamber of Commerce, appeared as an opponent of House Bill 2498.

Alan Alderson, Department of Revenue, stated that the Department of Revenue met with the Kansas Department of Economic Development and the League of Kansas Municipalities to put together the legislation encompassed in House Bill 2498.

The meeting was adjourned.

DATE: MARCH 1, 1983

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
Ron Gaches	KACI	TOPEKA
Bill Edds	Revenue	"
Chris McKenzie	League of Ks. Municip.	"
Scot Wrighton	City of Wichita	Wichita
Chris Enning	Topeka Comm. Dev.	Topeka
Kenny Wedel	Ks Natural Resource Council	Topeka
Robert Schleyer	Marymount College	Salina
Brad Martell	Marymount College	Salina
Ken Meyer	Marymount College	SALINA
Tammy Whalen	Marymount Coll.	Salina
D. Shockley	CITY OF KCK	CITY HALL, KCK 66101
RON CALBERT	U.T.U.	NEWTON
Jamie Schwartz	K.D.E.D.	Topeka
Lonnie Edenfield	WINFIELD AREA CHAMBER	Winfield, Ks
Wes Sheeky	KCK Chamber of Commerce	Kansas City
Jim Walker	KIDA	Wichita
Susan Schroeder	Budget	Topeka
M Beshears	Revenue	"
B. Edds	"	"
Sandra Darrah	Trailridge Junior High	Lenexa
Robin Maybell	Trailridge Junior High	Lenexa
Diana Foster	Trailridge Junior High	Lenexa
Ami Schleseth	"	"

DATE: March 1, 1983

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
Jenny Toenz	Trowbridge Jr. High	Shawnee
Jennifer Summerville	" " "	" "

ATTACHMENT I

CITY OF KANSAS CITY, KANSAS

MAYOR'S OFFICE
ONE CIVIC CENTER PLAZA
KANSAS CITY, KANSAS 66101
(913) 371-2000

DENNIS M. SHOCKLEY
FEDERAL AND STATE AFFAIRS

March 2, 1983

Rep. James Braden
Chairman, House Committee on
Assessment and Taxation
Statehouse
Topeka, Kansas 66612

Dear Rep. Braden:

This letter is the promised follow-up to my testiomony before your committee on March 1, 1983, regarding H.B. 2498 on enterprise zones.

The following is a list of my city's concerns and suggested amendments:

1. We feel strongly that enterprise zone legislation of some kind must remain law.

2. We do not feel that the current enterprise zone law poses the threat to revenue that the Revenue Department feels it does. They have produced no figures to back up their concerns. Further, there seems to be no mass rush by cities to take advantage of this legislation, nor is there a "land rush" by businesses to "cash in" on this legislation. Frankly, we feel the Department of Revenue is over reacting. Even if some revenue was lost, it would be more than compensated by the income taxes on the new businesses and employees.

3. The City of Kansas City, Kansas opposes the 25% proposed limitation to area and population of city. For cities which qualify, we would like to see it remain 100%. Failing in this, we think 50% is more reasonable than 25%.

4. If in the event E-Zones are limited by a percentage of land area and/or population of city, we would want the option to have more than one zone, the total of those zones not exceeding the fixed percentage mentioned in number 3 above.

5. Again, if the land area is restricted, we would hope to be grandfathered in our present land area for at least 5 years. The Department of Revenue and the Department of Economic Development both support this. We feel it is unfair to change the rules on such short notice. Actually, we would prefer to be grandfathered permanently.

6. If the zone is limited to a fixed percentage of land area and/or population; then why not "beef up" the tax incentatives to give our E-Zones ever more national attraction?

7. A larger tax credit could be given for hiring Kansas residents. The Department of Revenue should find this easier than the present in-zone/out of zone tax credit. And really, the purpose of this law is to help Kansans.

8. The committee should bear in mind that federal zone designation is retroactive to state designation, as the federal legislation is currently written. We do not want to re-apply for state designation.

9. We wonder, in light of pending federal legislation and no figures from the Department of Revenue, if the bill just shouldn't be given to an interim committee.

10. Because H.B. 2498 calls for a review of each zone every five (5) years, it will be impossible for a jursidiction applying for Federal designation, which lasts for twenty (20) years, to guaranty that the State zone will be in place for the full term of the Federal zone. This could adversely affect the Federal applications of Kansas jurisdictions. Therefore, I suggest that Kansas zone designation run concurrently with Federal zone designation when such a Federal zone is in place. This will greatly enhance the opportunity for one or two Kansas communities to receive Federal designation. Following is suggested amending language:

    Sec. 1 (a.) (Insert after the word "approval" line 0055), except as provided for in subsection (c.),

    New Sec. 1 (c.) For any area receiveing a Federal Enterprise Zone designation, the period of State zone designation, the period of State zone designation shall run concurrently with the period of Federal zone designation.

    I also suggest that with regard to Section 4 the original language of the law be kept. With the restricted size of the enterprise zones there is little chance that this exemption will be onerous. In addition, restricting the sales tax exemption to manufacturing equipment favors large industries while the original wording was more equitable to all sizes of business.

I thank you for allowing me the time to prepare these comments. If you have further questions do not hestitate to call on me.

Sincerely,

Dennis M. Shockley
Federal and State affairs

DMS:skd

c.c. Members of Assessment and Taxation Committee

Legislative Testimony

Kansas Association of Commerce and Industry

500 First National Tower, One Townsite Plaza Topeka, Kansas 66603 A/C 913 357-6321

March 1, 1983

TESTIMONY OF THE KANSAS ASSOCIATION OF COMMERCE AND INDUSTRY

BEFORE THE

HOUSE ASSESSMENT AND TAXATION COMMITTEE

REGARDING: HB 2498, ENTERPRISE ZONES

Thank you Mr. Chairman for this opportunity to share with the Committee a few comments on behalf of KACI regarding the policy decisions embodied in HB 2498.

1. Why restrict the sales tax exemption to apply only toward the purchase of manufacturing machinery and equipment? Retaining the exemption for purchases of retail equipment and fixtures is consistent with the purpose of the act to provide employment opportunities in a designated area.
2. The grandfather clause should apply to the tax credits and sales tax exemption just as it applies to the geographic area of the zone. Continually changing the tax rules is detrimental to economic development. Investment decisions have now been made based on the tax consequences approved by the legislature last year. Now removing the tax incentives will result in a loss of credibility in our economic development efforts.
3. Restricting communities to a single enterprise zone may be an unnecessary limitation. Some communities may have a downtown area they would like to include in an enterprise zone and have an area outside of downtown where the benefits could be well used. Permitting multiple zones, but a limitation on total geographic and population dimensions, may be preferred.

OPPORTUNITYLAND

U.S.A.

WINFIELD AREA Chamber of Commerce

recd 3-3-83

ATTACHMENT III

March 1, 1983

TESTIMONY OF LONNIE EDENFIELD, EXECUTIVE DIRECTOR OF THE WINFIELD AREA CHAMBER OF COMMERCE, BEFORE THE HOUSE ASSESSMENT AND TAXATION COMMITTEE

Good morning Mr. Chairman and members of the committee. I am Lonnie Edenfield, Executive Director for the Winfield Area Chamber of Commerce. I have been authorized by our Chamber to appear before this committee and register our concern with a portion of H.B. 2498 now before this body.

Section 4 of H.B. 2498 as proposed would have a distinct adverse impact on Winfield's overall strategy for alleviating conditions of economic distress by limiting sales tax refund incentives to only manufacturing equipment and machinery.

Currently Winfield is nearing completion of a major downtown revitalization project initially approved under the Kansas Department of Economic Development's Mainstreet Program. A local incentive program, underwritten by three Winfield financial institutions, has been established to provide $200,000 at a rate of 8% for restoring commercial structures in the downtown business district.

A comprehensive package of incentives including state enterprise zone benefits and federal investment tax credits under the Economic Recovery Tax Act of 1981, as amended, have been developed that should spur economic activity when coupled with

FIVE YEARS

ACCREDITED CHAMBER OF COMMERCE

CHAMBER OF COMMERCE OF THE UNITED STATES

ATTACHMENT III

3-1-83

P. O. BOX 640 / WINFIELD, KANSAS 67156 / TELEPHONE 316-221-2420

our low interest loan program. As a result of this strategy, two commercial projects are now underway. Currently the combined incurred expenses for both projects are approximately $31,000. Total expenditures are anticipated to exceed $150,000 but will inevitably be determined by the incentives and credits available to the property owner. To restrict the sales tax incentive now would not only impair the attractiveness of the Winfield initiative for job creation and commercial development but seriously jeopardize local opportunities for pursuing the incentives proposed under the federal enterprise zone concept.

The program that Winfield has embarked upon depends heavily on the state initiative for effectuating a true merger of local, state, and federal resources in combatting conditions of economic distress. (In December, 1982, Cowley County's unemployment rate was the third highest in the state at 12.1%. In January, 1983, it was the second highest at 11.5%.) The strategy of using local, state, and federal incentives as a total package also represents a key element in our quest for pursuing federal zone designation by providing for reduced taxes within the zone. Utilization of this strategy also increases the opportunities for increased jobs and expanded economic activity by placing equal emphasis on commercial as well as industrial development projects.

In conclusion, our recommendation for addressing the sales tax refund amendment in H.B. 2498 would be to provide consideration for communities participating in the KDED Mainstreet Program that are engaged in commercial development projects having the potential to create jobs and address local conditions of economic distress. We believe that the sales tax refund incentive is essential for constructing, repairing, and enlarging business structures if the State is to provide competitive incentives for Kansas business and industry to expand and renew the local economies of economically distressed areas. Thank you.

Statement of Suzanne Lindamood on HB 2498

I submit this statement in support of proposed revisions in the enterprise zone law (HB 2498).

My name is Suzanne Lindamood and I am a member of the Manhattan, Kansas city commission. I am an associate professor at Kansas State University. I am here on my own behalf and mention these two affiliations for purpose of identification only.

I have studied the enterprise zone act in Kansas, as well as those of other states, and I have read academic studies of the effects of enterprise zones. I support the revisions in the enterprise zone act for the following reasons:

1. For the act to be effective in targeting to areas and people most in need, it must be limited in scope. The present law is so broad that needy areas and people will get few benefits. The law should be limited both in terms of geographic areas and employees. The proposed revisions accomplish the proper amount of limitation. Without these revisions, almost all of the benefits will go to areas and people who do not need the benefits. My study of the committe records indicates that the original version of the enterprise zone bill in the last session of the legislature was much more limited in terms of areas covered. Changing one word -- an "and" to an "or" -- , just prior to its passage, resulted in expansion of the coverage of the bill from a few areas to many cities in the state. I suspect few legislators were aware of the vast implications of this slight change. The impact of the change is contrary to its intent. Minutes of the April 1, 1981 Senate Committee on Local Government hearing indicate that the intent of changing the eligibility criteria from:

UDAG eligibility <u>and</u> other criteria
to
UDAG eligibility <u>or</u> other critieria

was to make "cities eligible if they cannot qualify for a federal Urban Development Action Grant." The impact has been just the opposite -- to make cities eligible which do not meet the other criteria.

The intent of the change, as reflected in the minutes, was <u>not</u> to make UDAG elgibility an automatic qualification for the program. UDAG eligibility should be dropped as a qualification for the enterprise zone program. The other criteria are more appropriate.

2. If the enterprise zone law is not revised, the loss in state revenues may be larger than any of the tax increases the legislature is considering in this session. Almost all of the tax benefits would go to businesses which would have been created anyway, for jobs which would have been created anyway. (See. attached description of study of impact of tax

incentives for attracting industry.) An example is Manhattan's prosperous Aggieville area next to the Kansas State campus. The Manhattan City Commission included Aggieville in an enterprise zone which covers a large part of the city. Without the proposed revisions, the enterprise zone act will result in the subsidization of the expansion of taverns and private clubs in an already thriving area.

Finally, I believe that the revision of the act should be made retroactive. The losses to state revenue by the cities which have already declared themselves to be enterprise zones would be disastrous for state revenues. To continue these cities under the enterprise zone act would give them an unfair advantage and would dilute the positive impact of the amendment in helping distressed areas.

Suzanne Lindamood
1719 Humboldt Street
Manhattan, Kansas 66502

Public officials rarely have a mandate to sit by and watch private—not necessarily market—forces dictate the pace and composition of economic growth. Businesses and their trade associations continually ask for lower taxes and special investment incentives, always promising that the tax cut will prove self-financing through its stimulus to private, taxable activities. At least one neighboring state or city usually has lower taxes or deeper incentives, and will be pointed to as a prime "competitor" for future business expansion. And there is always at least one legislator willing—even eager—to introduce a bill to create incentives to retain firms or boost the economy.

Elected officials and their staff face such situations frequently. They rarely know what to do, nor do they have the time or resources to attempt a study of the pros and cons of making tax incentives an integral part of their development policy. TAXES AND GROWTH: BUSINESS INCENTIVES AND ECONOMIC DEVELOPMENT is intended to make life a little easier for them and a bit harder for those who promise too much from tax gimmickry.

The most thorough analysis of the effectiveness of tax incentives ever undertaken, TAXES AND GROWTH makes several points:

★ In most industries, the level of business taxation has an undetectable effect on investment patterns. And even where some effect can be seen, it is quite small.

★ Overall business tax reductions, even if targeted to "sensitive" industries, are likely to be entirely ineffective in stimulating new investment.

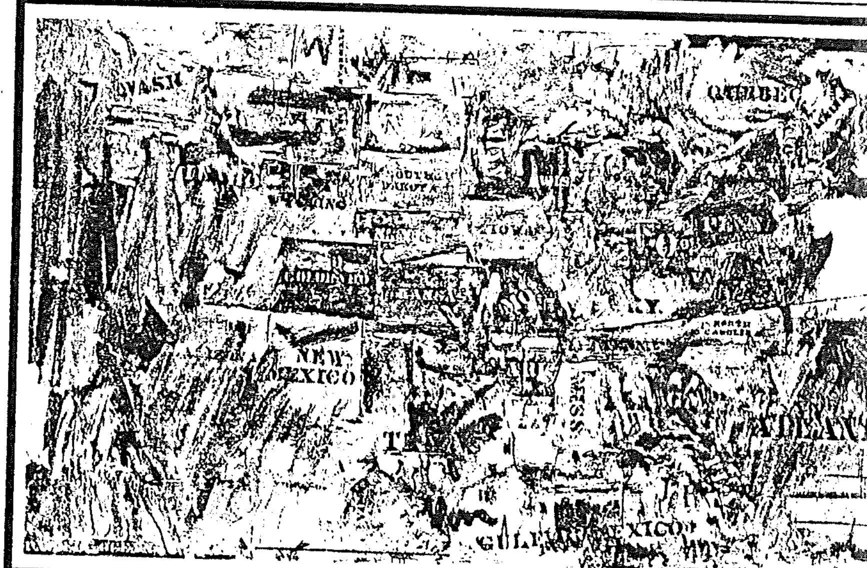
★ Most firms making new investments never consider investing in any state other than their final choice, seldom know about available incentives, and where they do, rarely attribute any importance to them.

★ And finally, the states are forgoing a substantial amount of revenue through tax loopholes that are clearly *useless* in creating or retaining jobs. At a time when an increasing number of states are under severe fiscal restraint, when federal tax changes are certain to depress the states' own revenues by *billions* of dollars, and when federal budget cuts are placing a growing pressure on the states to fund basic human service programs of all kinds, these departures from an equitably administered tax system are simply indefensible.

STUDIES IN DEVELOPMENT POLICY

TAXES AND GROWTH

BUSINESS INCENTIVES AND ECONOMIC DEVELOPMENT



MICHAEL KIESCHNICK

TAXES AND GROWTH contains a wealth of new data concerning the states' use of business taxation. *(For more detail see page 7.)*